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THE FEDERAL MEDICAID MATCH RATE

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## Federal Medical Assistance Percentage (FMAP)—Background

The Federal Medical Assistance Percentage, or FMAP, is commonly known as the “Medicaid match rate”. Medicaid is a joint Federal/State health insurance program for low-income people. States run individual Medicaid programs and the Federal government picks up most of the cost (and sets basic standards for eligibility and services).

Medicaid is financed by the Federal government on a matching basis. For traditional (nonexpansion) Medicaid, each State has an FMAP (a match rate) that is adjusted from year to year. The base match rates vary from 50% to 75% (that is, in some states the Federal government picks up 50% of the cost and in others the Federal share can approach 75% of the cost—in Michigan, before the COVID-19 pandemic, the Federal government covered just over 64% of the cost).

The annual match rate adjustment is based on a state’s personal income growth compared to other states. If a state’s personal income growth is relatively worse than those of other states, its match rate will go up. If its personal income growth is relatively better than those of other states, its match rate will go down. During the 1990s, Michigan’s match rate was in the 55% range most years, but, as the economy worsened, Michigan’s match rate began to increase and it is now around 64% as noted.

## FMAP—How it Works

The State of Michigan has chosen to run a Medicaid program. Eligible services are provided to eligible Medicaid clients by eligible providers. The providers bill the State’s Medicaid program much as any provider bills a private insurance company. The State’s Medicaid program reimburses the provider at the Medicaid payment rate for the service. The State’s Medicaid program then bills the Federal government for the Federal government’s share of the costs, which, under normal circumstances, is about 64% (Michigan’s base FMAP) of the cost in Michigan.

Suppose a Medicaid client has an inpatient hospital stay and the hospital then bills Michigan’s Medicaid program. Suppose the State determines that the proper reimbursement to the hospital is \$2,000 for that stay. The State then would bill the Federal government for the Federal government’s 64% share of the costs (64% of \$2,000 or \$1,280). The Federal government then would pay the State \$1,280, meaning the net cost to the State for that Medicaid client’s hospital stay would be \$720. The \$1,280 is not a grant to the State available to be used for some non-Medicaid purpose. It is partial reimbursement for Medicaid spending done by the State and it limits the State’s financial exposure.

## Enhanced FMAP

In March 2020, as part of the Federal coronavirus legislation, the Federal government increased the FMAP by 6.2% for each state for each calendar quarter during which the Federal emergency continued. This increase of 6.2% means the Federal Medicaid match rate for Michigan went from just over 64% to just over 70% in each quarter that the Federal emergency exists. At present, the emergency declaration will remain in effect into the second quarter of calendar year 2021, which means the enhanced match rate will be in effect through at least June 30, 2021.

## Meaning of the Enhanced FMAP

The enhanced FMAP simply means that the Federal government reimburses at a higher rate than during more “normal” times. Using the example of the \$2,000 bill, instead of the Federal government's reimbursing the State \$1,280 (64% of \$2,000), it instead reimburses the State \$1,400 (70% of \$2,000). This reduces the State's cost for that services from \$720 to \$600. In effect, the Federal reimbursement for this service increases by \$120, but the \$120 is not a grant to the State. Instead, it is an increased reimbursement that reduces State costs (instead of the State having to spend \$720 it now has to spend \$600).

The impact of the enhanced FMAP is not an increased Federal grant that is available to be spent. Rather, the impact is decreased pressure on the State's General Fund. When the match rate increases, as it has this year, the State's General Fund/General Purpose (GF/GP) costs (and thus GF/GP spending) goes down. The State General Fund revenue that is not spent does not “go” anywhere; it just is not spent.

The parallel would be if a person has autopay from his or her checking account for a \$100 monthly parking fee. Suppose the monthly parking fee is reduced to \$80. If that happens, nobody gave the person \$20; instead, the person's bank account is \$20 better off than it otherwise would have been. The \$20 did not “go” anywhere or get dedicated to anything, it just was not spent.

The same thing happens with GF/GP when the FMAP increases: the reduction in GF/GP cost does not “go” anywhere and it is not “spent” on anything. It is simply more money in the State's main checking account.

## Impact of Freeing up GF/GP and the Legislature's Role

If the State has more GF/GP due to something like an enhanced FMAP rate, then it has a greater ability to spend GF/GP on other priorities. Decisions to spend when there is more GF/GP available, however, are made through the appropriations process, a constitutional power granted to the Legislature. The Executive Branch cannot unilaterally “spend” additional Federal match for non-Medicaid purposes. Nor can the Executive Branch unilaterally spend the GF/GP freed up in the Medicaid lines for non-Medicaid purposes.

What can happen is that, when an enhanced FMAP reduces GF/GP spending below what was originally assumed, the State will have more money available on its GF/GP balance sheet. This may give the State the opportunity to spend newly available GF/GP on other priorities. Again, those decisions to spend must go through the appropriations process, which, again, is a power that constitutionally resides with the Legislature.

## Conclusion

The FMAP reflects the reimbursement percentage paid by the Federal government for Medicaid services. The money is not a grant; it is a reimbursement and the remaining cost (billing less Federal match) is the State's cost for the program. An increased FMAP, such as what the State has had in calendar year 2020 and will have through at least June 30, 2021, increases the Federal match for services and reduces State costs for Medicaid. Reduced State costs for Medicaid help the State's GF/GP bottom line, which provides opportunities to spend freed-up GF/GP on other priorities through the appropriations process. The appropriations process, under the State Constitution, requires legislative support for any appropriations made. Therefore, the enhanced FMAP does not provide any grant to or any unilateral ability for the Executive branch to spend money without approval from the Legislature.